



State of Wyoming
DEPARTMENT OF REVENUE

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MEMORANDUM

TO: All Department Assessed Companies and Interested Parties

FROM: Kenneth C. Uhrich
Appraisal Supervisor
Appraisal Services Group
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SUBJECT: 2011 Summary of Capitalization Rates for Department Assessments

DATE: March 17, 2011

This document contains the 2011 capitalization rates for Department assessed industries. There are 8 pages listing the major industry, industry sub-groupings (if applicable) and rating agency sub-grouping for capital structures, rates for debt, preferred and common equity and an overall rate of return.

The capitalization rate procedures used are in compliance with Wyoming Department of Revenue Rules and Regulations, Chapter 7 "PROPERTY TAX VALUATION METHODOLOGY AND ASSESSMENT (DEPARTMENT ASSESSMENTS)" Section 7. Capitalization Rate Development.

The Band-of-Investment method was used for estimating the capitalization rates. This method requires capital structures and rates based upon current industry standards as evidenced by the market. Individual company embedded rates of return and capital structures were not used.

The capital structures used are those typical to an industry rather than company specific. Good appraisal practice dictates use of the capital structure typical for an industry purchaser. Data was gathered by industry, industry sub-grouping (if applicable) and sub-groupings with similar bond ratings and estimated on the basis of current market statistics, trends, regulatory guidelines, financing considerations and appraisal judgment. Rates (debt, preferred and common equity) changed from the prior assessment year study. The rates did not change uniformly from industry to industry or by respective bond ratings.

Rates of return for debt and preferred are based upon the annual average of the current yields of bonds and preferred stock. Mergent's Bond Record, Standard and Poor's Corporate Bond Yields, Value Line Investment Survey, Cooperative Finance Corporation and the 20 Year Constant Yields from the Federal Reserve Bulletin were the sources of this data.

Equity rates of return are based upon industry data for indicated returns on common equity. The equity rates are based on various measures of cash returns on annual average high and low common stock prices as shown in the January 3, 2011 “Wall Street Journal”. The Discounted Cash Flow Model (DCF), Risk Premium Model (RP) and the Capital Asset Pricing Model (CAPM) were used to determine equity rates of return. Risk Premiums and Firm Size and Return percentages were calculated from the Morningstar, Inc. 2011 Stock, Bonds, Bills and Inflation Yearbook, Valuation Edition.

Appraisal Services Group appraisers analyzed the studies and/or comments submitted by the close of business on March 15, 2011, by industry and utilized them when deemed appropriate under Department of Revenue Rules and Regulations to assist in developing derived rates. The final rates and overall rates of return reflect Flotation Cost adjustments as calculated by the Department from available sources, i.e. Public Utility Finance Tracker and industry studies, as applicable. Additionally, for 2011 the Department maintained the use of the Firm Size and Return Adjustment to the CAPM equity models.

Consideration was not given to the following capitalization rate issues: use of spot rates; Fourth (4th) Quarter and/or December averages for debt and preferred rates as compared to annual averages; other extraordinary industry and/or company specific equity rate assumptions not consistent with sound appraisal practices or Department Rules and Regulations.

Although capitalization rates involve many subjective judgments, the Department has made reasonable estimates that reflect current market conditions or changes in industry environment, such as, the MLP’s in the Natural Gas and Liquid Pipeline industries for the appraisal period. The Department greatly appreciates the efforts of all parties who assisted with the capitalization rate process by submission of studies, supplemental comments and attendance at the annual Appraisal Services Group capitalization rate input meeting conducted March 7, 2011.

**WYOMING DEPARTMENT OF REVENUE
PROPERTY TAX DIVISION
APPRAISAL SERVICES GROUP
2011 CAPITALIZATION RATE STUDY SUMMARIES**

TELECOMMUNICATIONS

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE	
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK		COMMON EQUITY
Reseller/Broadband	All	39%		0%	61%	9.34%	0.00%	12.70%	11.40%
Local Exchange	All	36%		0%	64%	9.39%	0.00%	12.48%	11.35%
Long Distance	All	36%		0%	64%	9.39%	0.00%	12.48%	11.35%
Rural Communications	All	43%		0%	57%	8.98%	0.00%	11.08%	10.20%
Cellular	All	49%		0%	51%	9.70%	0.00%	14.14%	11.95%
VOIP	All	39%		0%	61%	9.34%	0.00%	12.70%	11.40%

ELECTRIC – PRIVATE, G&T, RURAL, MUNICIPAL, MERCHANT

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
		BONDS	PREFERRED DEBT	COMMON STOCK	EQUITY	PREFERRED DEBT	COMMON STOCK	EQUITY
Private and G and T's	A	38%	0%	62%	5.07%	0.00%	10.38%	8.40%
	BBB	44%	0%	56%	5.69%	0.00%	10.60%	8.45%
	BB	54%	0%	46%	7.68%	0.00%	11.60%	9.50%
Rural Electric <i>Distribution</i>	N/R	54%	0%	46%	7.35%	0.00%	7.02%	7.20%
Municipal	N/R	43%	0%	57%	6.14%	0.00%	10.62%	8.70%
Merchant/Generation	All	57%	0%	43%	7.24%	0.00%	11.55%	9.10%

LIQUID PIPELINES

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			
			PREFERRED	COMMON		PREFERRED	COMMON	OVERALL RATE
		BONDS	DEBT	STOCK	EQUITY	DEBT	STOCK	
Interstate Carriers	All	31.43%	0.09%	68.48%	6.01%	6.43%	13.27%	11.00%

NATURAL GAS PIPELINES

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			
			PREFERRED	COMMON		PREFERRED	COMMON	OVERALL RATE
		BONDS	DEBT	STOCK	EQUITY	DEBT	STOCK	
Interstate Carriers	All	31.43%	0.09%	68.48%	6.01%	6.43%	13.27%	11.00%

GAS DISTRIBUTION

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			
			PREFERRED	COMMON		PREFERRED	COMMON	OVERALL RATE
		BONDS	DEBT	STOCK	EQUITY	DEBT	STOCK	
	All	32.53%	0.18%	67.29%	5.29%	6.43%	10.87%	9.05%

AIRLINES – PASSENGER & CARGO

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE
			PREFERRED	COMMON		PREFERRED	COMMON	
		BONDS	DEBT	STOCK	EQUITY	DEBT	STOCK	
Passenger Carriers	All	50%	0%	50%	9.93%	0.00%	14.61%	12.30%
Cargp Carriers	All	12%	0%	88%	6.94%	0.00%	12.81%	12.10%

RAILROADS

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE	
		BONDS	DEBT	PREFERRED	COMMON	DEBT	PREFERRED		COMMON
				STOCK	EQUITY		STOCK		EQUITY
Class I	All	21%	0%	79%	5.55%	0.00%	12.36%	10.95%	

CABLE AND SATELLITE

SUB-GROUPING DESCRIPTION	ST. & POOR RATING	CAPITAL STRUCTURE			RATE OF RETURN			OVERALL RATE	
		BONDS	DEBT	PREFERRED STOCK	COMMON EQUITY	DEBT	PREFERRED STOCK		COMMON EQUITY
Cable	All		41%	0%	59%	9.12%	0.00%	11.60%	10.60%
Satellite	All		28%	0%	72%	7.53%	0.00%	11.26%	10.20%